

Report of the Audit Committee and Audit Program

**Multistate Tax Commission
2022**

**Frank Hales, Chair, MTC Audit Committee
Michael Williams, Vice Chair, MTC Audit Committee
Holly Coon, Director, MTC Joint Audit Program**

The following report reflects the activities of the MTC Audit Committee and the Audit Program for the 2022 fiscal year ended June 30, 2022.

*** AUDIT COMMITTEE ***

The audit committee met three times in fiscal year 2022. The committee's first meeting was held on August 10, 2021, via teleconference, due to the global COVID-19 pandemic. There were 101 members, guests, and staff present during the public session and 84 members and staff present during the closed session of the meeting. There were 5 members of the public present during the public session, and there were 69 individuals representing 26 audit program states present during the closed session of the meeting.

The audit committee's second meeting in fiscal year 2022 was held on November 10, 2021, in Alexandria, VA. There were 111 members, guests and staff present during the public session and 99 members and staff present during the closed session of the meeting. There were 11 members of the public present during the public session, and there were 69 individuals representing 26 audit program states present during the closed session of the meeting.

The third and final meeting of the audit committee held in fiscal year 2022 was on April 21, 2022 in Albuquerque, NM. There were 114 members, guests and staff present during the public session and 96 members and staff present

during the closed session of the meeting. There were 10 members of the public present during the public session, and there were 69 individuals representing 26 audit program states present during the closed session of the meeting.

At each meeting, the audit committee reviewed the status of all audits, in progress or recently closed. Discussions were held on income tax and sales tax audits that had significant issues.

During its spring meeting, the committee approved a revised Sales Tax Sampling and Guidelines Manual, added companies to sales tax audit inventory, and received a SALT case update from MTC legal staff.

During the fall meeting, the committee received an exclusive SALT case update from MTC legal staff and adopted a written policy that states the nominating state and the reasons for nomination cannot be disclosed to taxpayer representatives.

During its summer meeting, the committee approved an updated MTC Audit Manual for Sales Tax and MTC Sales and Use Tax Waiver and Extension of Statute of Limitations form. During the closed session of the meeting, the committee was notified that a taxpayer representative requested the name of the nominating state and the documented reasons for the nomination. The committee requested that MTC legal staff draft a policy stating that MTC audit staff may not divulge the nominating state's name or reasons for an audit nomination.

The audit committee will meet for the first time in fiscal year 2023 on August 1, 2022, during the MTC annual meetings which will be held in Anchorage, Alaska.

*** AUDIT PROGRAM ***

1. Productivity

The Joint Audit Program completed three (3) income tax audits and parts of eight (8) income tax audits during fiscal year 2022. Audit staff also completed four (4) sales tax audits and parts of three (3) other sales tax audit. Currently, there are sixteen (16) income tax audits and twenty-five (25) sales tax audits in progress.

During the last fiscal year, the income tax program proposed net assessments of \$196,365,218 for completed and partially completed income tax audits. Income tax program staff also proposed net NOL and tax credit reductions of \$1,726,271. The sales tax program proposed net assessments of \$3,417,681 for completed and partially completed sales tax audits.

2. Staffing

The Joint Audit Program experienced no staffing changes since the spring audit committee meeting, but there were staff changes earlier in the fiscal year. In March, Melody Moncrief joined the audit team as a part-time administrative assistant and George Fung, a longtime sales tax auditor, retired. We hope to add a new sales tax auditor early in the new fiscal year and a new income tax auditor around the midpoint of the fiscal year.

During its August meeting, the committee approved an updated MTC Audit Manual for Sales Tax and MTC Sales and Use Tax Waiver and Extension of Statute of Limitations form. During closed session of the meeting, the committee directed MTC legal staff to draft a policy stating that MTC audit staff may not divulge the nominating state's name or reasons for an audit nomination.